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Prairie Oil Royalties

COMPANY, LTD.



1966

ANNUAL REPORT



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PRAIRIE OIL ROYALTIES COMPANY, LTD.

ANNUAL REPORT

For the Fiscal Year ended June 30, 1966

BOARD OF DIRECTORS:

SENATOR JOHN B. AIRD, Q.C., *Toronto, Ontario*
E. G. BATTLE, *Calgary, Alberta*
S. R. DYCKMAN, *Calgary, Alberta*
E. A. GALVIN, *Calgary, Alberta*
B. R. B. GORE, *Calgary, Alberta*
W. A. LOUCKS, *Calgary, Alberta*
F. A. MCKINNON, *Calgary, Alberta*
C. A. RAE, *Calgary, Alberta*
D. K. RUSSELL, *New York, New York*
D. M. TYERMAN, Q.C., *Regina, Saskatchewan*

OFFICERS:

SENATOR JOHN B. AIRD, Q.C., *Chairman of the Board*
E. G. BATTLE, *President*
W. A. LOUCKS, *Vice-President*
D. M. TYERMAN, Q.C., *Secretary*
T. G. SHEERES, *Treasurer*
L. A. SILLS, *Assistant Secretary*
J. D. S. BOHME, *Assistant Secretary*

HEAD OFFICE:

2236 Albert Street, Regina, Saskatchewan

OPERATIONS OFFICE:

224 - 9th Avenue S.W., Calgary, Alberta

COUNSEL:

MACPHERSON, LESLIE & TYERMAN, *Regina, Saskatchewan*
SIMPSON THACHER & BARTLET, *New York, New York*

AUDITORS:

TOUCHE, ROSS, BAILEY & SMART, *Calgary, Alberta*

TRANSFER AGENT & REGISTRAR:

CANADA PERMANENT TRUST COMPANY, *Regina, Saskatchewan*

CO-TRANSFER AGENT & REGISTRAR:

THE ROYAL TRUST COMPANY, *Toronto, Ontario*

CO-TRANSFER AGENT:

MORGAN GUARANTY TRUST COMPANY OF NEW YORK, *New York, New York*

CO-REGISTRAR:

CHEMICAL BANK NEW YORK TRUST COMPANY, *New York, New York*

STOCK EXCHANGE LISTINGS:

TORONTO STOCK EXCHANGE, *Toronto, Ontario*
AMERICAN STOCK EXCHANGE, *New York, New York*

PRAIRIE OIL ROYALTIES COMPANY, LTD.

To the Shareholders:

The Board of Directors of Prairie Oil Royalties Company, Ltd. is pleased to present the Annual Report of the Company for the fiscal year ended June 30, 1966, together with the audited consolidated financial statements as of that date.

Production

Net daily oil production averaged 946 barrels for the fiscal year ended June 30, 1966, an increase of 8% over the preceding year's average of 878 barrels. This increase came entirely from royalty properties and in spite of a drop in working interest production resulting from the sale of the Oungre properties in Saskatchewan. Average net gas production was 2,340 MCF per day, a decrease from 3,081 MCF per day for the preceding year. The primary reason for the decrease was gas deliverability problems experienced in the West Acadia Unit; however, these difficulties have now been rectified by the installation of a gas compressor.

Financial

Net income was \$198,000 for the year under review, an increase of \$54,000 over the preceding year, resulting in a net income per share of 10.5¢ compared to 7.6¢ for the preceding year. Gross income increased only slightly for the reasons discussed under "Production" above and the increase in net profit was due primarily to profit on the sale of the Oungre properties. There were, however, several adverse factors applicable to the year ended June 30, 1966 which should not apply to the current year. In the recent fiscal year the Company had unusually high costs as the result of expensive remedial work on its Northgate property and installation of a compressor to restore deliverability of gas in the West Acadia Unit. In addition there was a significant increase in overhead expenses in the last fiscal year. On August 1, 1966, Canadian Industrial Gas & Oil Ltd. took over the management of the Company under contract and made a mutually satisfactory settlement upon the discontinuance of the services of the previous staff. The charges of Canadian Industrial Gas & Oil Ltd. for its complete services are materially less than the overhead costs recently experienced.

Cash income of \$558,000 for the fiscal year, after financing the net additions to property, was used to reduce non-current debt by \$205,000 leaving \$145,000 to be added to working capital. On June 30, 1966 cash position was strong and would permit the purchase of the Vulcan properties mentioned below without the necessity for any additional debt.

Exploration and Development

The year ended June 30, 1966 was somewhat of an interim period for exploration and development. During the preceding year projects requiring the drilling of several wells were completed, while much of the drilling anticipated for new programmes undertaken during the current year was not scheduled to commence until after the end of the period. In all, the Company participated in 19 gross wells (7.77 net) during the year, which resulted in 3 gross oil wells (0.77 net), one gas well (0.33 net) and 15 gross wells suspended or abandoned (6.67 net).

The Company is participating in a land and drilling play located in the Big Bend area of central Alberta. Prairie owns a 33⅓% interest in 95,707 acres of petroleum and natural gas reservations and 9,440 acres of lease. During the year two encouraging wells were drilled on the acreage. Canadian Delhi et al Big Bend 10-27-67-25 W4 was suspended as a Basal Quartz gas well and Canadian Delhi et al Big Bend 6-20-67-26 was completed as a Wabamun gas

well after flowing in excess of 4 MMcf/d on drillstem test. At the present time negotiations are under way to increase the Company's land holdings in the area by farm-outs and options on lands held by other companies.

In the Mitsue field of Alberta the Company participated in one well, Decalta et al Mitsue 10-21-69-3 W5. This well, in which Prairie has a 10% interest, was completed as a good oil producer.

In the Blackfoot area of Alberta where the Company owns an 8% interest in several leases, an additional 12,676 acre permit was purchased by the group. Two unsuccessful wells were drilled for Cretaceous gas prospects, one on the leased lands and one on the Permit.

Prairie participated to the extent of a $66\frac{2}{3}\%$ interest in POR VR Cherhill 12-20-56-5 W5 to earn rights in 3,200 acres by farm-in. Although interesting oil and gas shows were encountered, the well was abandoned.

In the North Battleford area of Saskatchewan the Company acquired a $66\frac{2}{3}\%$ interest in two Permits totalling 171,840 acres. The lands have interesting possibilities in the Lower Cretaceous and Middle Devonian. Prairie has not as yet started its exploration programme in this area; however, another company recently commenced a multi-well drilling programme on lands located immediately to the west.

In the Northgate area of Saskatchewan, where new discoveries were made during the past year, the Company drilled Prairie Oil E. Northgate 13-3-1-2 W2 on its wholly-owned lands. The well was dry and abandoned.

In the general Virden area of Manitoba, Prairie participated as to a $33\frac{1}{3}\%$ interest in four wells, two of which were completed as oil wells and two were dry and abandoned.

Acquisition

The Company is presently completing the purchase for cash of all of the interests in Canada of Vulcan Resources Corporation. The major producing interests of Vulcan are located in the Mitsue field of Alberta and the Virden Roselea field of Manitoba.

Royalties

Royalty interests owned by Prairie provided approximately 80% of the Company's total oil income for the past fiscal year. For the fourth successive year the number of well completions on royalty lands increased over the preceding year. Eighty successful oil completions were made on the $1\frac{1}{4}\%$ royalty interest acreage located in Southwestern Saskatchewan, and in Southeastern Saskatchewan where the royalty interests vary between $2\frac{1}{2}\%$ and $12\frac{1}{2}\%$, another 42 oil wells were completed. In all, 137 wells were drilled on the combined royalty interests as compared to 110 for the preceding year. Thirteen of the 42 completions made in Southeastern Saskatchewan were in the Innes field where oil pay thicknesses are as high as 70 feet in some wells. Initial production rates of 4,000 to 6,000 barrels of oil per month are not uncommon for the most prolific wells.

Land

Total land holdings increased significantly and at the year end varying interests were held in lease, mineral and permit lands aggregating 2,626,965 gross acres equivalent to 611,353 net acres. Comparable figures recorded at the end of the preceding year were 1,884,272 gross acres or 363,350 net acres. The significant increase occurred mainly as the result of obtaining a 25% interest in 600,000 acres of reservations in the Interlake area of Manitoba and a $66\frac{2}{3}\%$ interest in 171,840 acres of permits in the North Battleford area of Saskatchewan. A wholly-owned subsidiary company, Prairie Gas & Oil Ltd., was formed

to hold a 100% working interest in 1,228 acres in North Dakota on a prospect extending from the Northgate area of Saskatchewan. In addition to the aforementioned lands, the Company holds royalty interests varying between 1¼ % and 12½ % in 517,962 acres. A summary of the Company's holdings by provinces or territories is presented elsewhere in this report.

Arctic

Prairie holds a 14% interest and acts as trustee for a syndicate which owns 1,526,214 acres of permit lands in the Arctic Islands. These lands have now been farmed out to the newly formed Panarctic Oils Ltd., a firm committed to expend approximately \$30,000,000 in Arctic Islands exploration over a five year period if financing can be arranged. The terms of the farm-out to Panarctic Oils Ltd. involve the drilling of three wells on Prairie interest permits and upon completion of the programme, Panarctic shall earn an undivided 77½ % interest in the Prairie interest permits. A moratorium on all work obligations on these permits has been obtained from the Federal Government pending finalization of the Panarctic financing.

British Columbia Oil Lands Ltd.

During the year the land holdings of British Columbia Oil Lands Ltd., in which Prairie owns a 35.2% share interest, remained unchanged. A schedule of these lands is shown on page 7.

Directorate

During the recent fiscal year and to date, Messrs. G. S. Brant, Jack Coles, M. H. Finnell, Benjamin Heffner, Joseph H. Hirshhorn, Winfield H. Perdun, C. W. Templeton and J. D. White, each resigned as a director of the Company. The continuing and succeeding directors would like to express their sincere appreciation for the important contributions these directors and the former staff made to the Company's progress and future potential. The present directorate includes several new directors reflecting the recently acquired proportion of share ownership by Canadian Industrial Gas & Oil Ltd. as discussed below.

Relationship with Canadian Industrial Gas & Oil Ltd.

As a result of share exchanges negotiated with individual shareholders and a share exchange offer made June 1, 1966 to all shareholders of the Company except those resident in the United States, Canadian Industrial Gas & Oil Ltd. acquired 71% of the outstanding common shares of the Company. The share exchange offer expired August 5, 1966. On August 1, 1966 a management contract with Canadian Industrial Gas & Oil Ltd. was put into effect on the basis of a monthly charge that is considerably below the equivalent administrative expenses it replaces.

On behalf of the Board,

SEN. JOHN B. AIRD, Q.C.,
Chairman,

E. G. BATTLE,
President.

Land Holdings as at June 30, 1966

I. Working and Mineral Interests

PROVINCE, TERRITORY OR STATE	AREA	TYPE INTEREST	GROSS ACRES	NET ACRES
MANITOBA	Southwestern	Mineral	47,567	14,182
	Southwestern	Lease	22,015	8,106
	Interlake	Reservation	600,000	150,000
			<u>669,582</u>	<u>172,288</u>
SASKATCHEWAN	Estevan - Midale	Mineral	18,754	10,672
	Estevan - Midale	Lease	11,449	8,959
	Estevan - Midale	Drilling Reservation	2,240	1,493
	North Battleford	Permit	171,840	114,560
	Swift Current	Mineral	7,588	3,794
	Swift Current	Lease	716	716
	Other Areas	Mineral	18,067	9,913
	Other Areas	Lease	130	130
			<u>230,784</u>	<u>150,237</u>
ALBERTA	Acadia - Oyen	Lease	27,200	19,381
	Big Bend	Lease	9,440	3,147
	Big Bend	Reservation	95,707	31,902
	Cherhill - Wabamun	Lease	8,946	5,213
	Drumheller - Gartley	Lease	7,838	1,595
	East Sarah Lake	Lease	2,400	800
	Kaybob - Virginia Hills	Lease	5,286	2,258
	Kinuso	Lease	2,399	384
	Red Deer - Rocky Mtn. House	Lease	4,131	1,381
	Other Areas	Lease	12,135	3,983
	Other Areas	Indian Oil & Gas Permit	12,675	2,346
			<u>188,157</u>	<u>72,390</u>
ARCTIC ISLANDS		Permit	1,537,214	215,210
NORTH DAKOTA	(Owned by Prairie Gas & Oil Ltd. a wholly owned subsidiary)		1,228	1,228
TOTAL WORKING AND MINERAL INTERESTS			<u>2,626,965</u>	<u>611,353</u>

NOTE: Prairie Oil Royalties Company, Ltd., is purchasing all of the interests in Canada of Vulcan Resources Corporation. When this purchase has been completed, the gross acreage figures shown above will not be affected as Prairie already has an interest in these properties, but the Company will have added to its net working and mineral interests as follows:

	NET ACRES
MANITOBA	4,023
SASKATCHEWAN	59,911
ALBERTA	3,268
TOTAL ADDITION	<u>67,202</u>

II. Royalty Interests

PROVINCE OR TERRITORY	AREA	TYPE ROYALTY	ACRES
MANITOBA	Southwestern	6¼ % gross	1,903
	Southwestern	3⅛ % gross	79,461
			<u>81,364</u>
SASKATCHEWAN	Estevan - Midale	12½ % gross	480
	Estevan - Midale	11¼ % gross	332
	Estevan - Midale	11 % gross	160
	Estevan - Midale	7½ % gross	143
	Estevan - Midale	6¼ % gross	3,618
	Estevan - Midale	3⅛ % gross	320
	Estevan - Midale	2 % gross	160
	Estevan - Midale	7½ % gross override	559
	Estevan - Midale	6 % gross override	636
	Estevan - Midale	5 % gross override	12,475
	Estevan - Midale	2½ % gross override	217,658
	Swift Current	6¼ % gross	802
	Swift Current	1¼ % gross override	167,611
	Other Areas	6¼ % gross	3,744
	Other Areas	3⅛ % gross	160
			<u>408,858</u>
ALBERTA	Forestview	1¼ % gross override	3,360
	Rumsey	2.13 % gross override	5,079
	Wabamun	1½ % gross override	1,280
			<u>9,719</u>
NORTHWEST TERRITORIES	Fort Liard	2½ % gross override	<u>18,021</u>
TOTAL ROYALTY INTERESTS		from 1¼ % to 12½ % in	<u><u>517,962</u></u>

BRITISH COLUMBIA OIL LANDS LTD.

(Owned 35.2% by Prairie Oil Royalties Company, Ltd.)

Land Holdings as at March 31, 1966

1. FORT NELSON AREA, BRITISH COLUMBIA

<u>ACREAGE</u>	<u>TYPE</u>	<u>INTEREST</u>	<u>OPERATOR</u>
242,637	Lease	25% net profit	Pacific Petroleums Ltd.
199,876	Lease	12½ % carried	Pan American Petroleum Corporation
11,152	Lease	25% carried	Pan American Petroleum Corporation
30,406	Lease	15% working	Pan American Petroleum Corporation

2. MITSUE AREA, ALBERTA

<u>ACREAGE</u>	<u>TYPE</u>	<u>INTEREST</u>	<u>OPERATOR</u>
2,240	Lease	11.56069% working	Western Decalta Petroleum Limited
1,920	Permit	5.780345% working	Standard Oil Company of British Columbia Limited

3. ARCTIC ISLANDS

British Columbia Oil Lands Ltd. has a 14% working interest in 1,537,214 Permit acres in the Arctic Islands.



PRAIRIE OIL ROYALTIES COMPANY, LTD.

AND SUBSIDIARY COMPANY

ASSETS

	1966	1965
CURRENT		
Cash and short term bank deposits	\$ 285,497	\$ 137,331
Accounts receivable	129,132	143,737
Inventory of material and supplies	19,109	10,775
	<u>433,738</u>	<u>291,843</u>
 INVESTMENT IN SHARES, at cost (Note 4)		
British Columbia Oil Lands Ltd.	2,009,117	2,009,117
 PROPERTY AND EQUIPMENT, at cost (Note 2)		
Producing properties, less accumulated depletion	498,082	668,042
Capped gas wells	99,716	51,569
Non-producing properties	1,008,423	1,013,308
Production and other equipment, less accumulated depreciation	306,287	328,544
	<u>1,912,508</u>	<u>2,061,463</u>
	<u><u>\$ 4,355,363</u></u>	<u><u>\$ 4,362,423</u></u>

The accompanying explanatory notes are an integral part of these financial statements.

Consolidated Balance Sheet

at June 30, 1966

LIABILITIES		1966	1965
CURRENT			
Accounts payable		\$ 33,247	\$ 33,173
Current portion of bank loan		60,000	60,000
		<u>93,247</u>	<u>93,173</u>
BANK LOAN, secured, repayable \$5,000			
monthly plus interest		120,000	325,000
Less portion due within one year,			
included in current liabilities		60,000	60,000
		<u>60,000</u>	<u>265,000</u>
Total liabilities		<u>153,247</u>	<u>358,173</u>
SHAREHOLDERS' EQUITY			
CAPITAL STOCK (Note 5)			
Authorized — 2,500,000 shares of \$1.00 each			
Outstanding — 1,876,520 shares		1,876,520	1,876,520
SURPLUS			
Contributed		420,480	420,480
Retained earnings		1,905,116	1,707,250
Total shareholders' equity		<u>4,202,116</u>	<u>4,004,250</u>
Signed on behalf of the Board,			
E. G. BATTLE, Director			
STEWART R. DYCKMAN, Director			
		<u>\$ 4,355,363</u>	<u>\$ 4,362,423</u>

The accompanying explanatory notes are an integral part of these financial statements.

PRAIRIE OIL ROYALTIES COMPANY, LTD.
AND SUBSIDIARY COMPANY

Consolidated Statement of Income and Retained Earnings

For the year ended June 30, 1966

	1966	1965
Production revenue		
Royalties	\$ 581,957	\$ 500,929
Crude oil and gas sales	292,429	358,052
	<u>874,386</u>	<u>858,981</u>
Other revenue		
Interest	8,378	7,298
Sundry	1,240	1,260
	<u>9,618</u>	<u>8,558</u>
Total revenue	<u>884,004</u>	<u>867,539</u>
Production and administration expenses		
Salaries and employee benefits, less management fees received of \$43,200 (1965—\$53,700)	103,478	77,865
Production	78,409	64,332
Lease rentals and mineral taxes	47,044	50,849
Office rent, utilities and business tax	14,308	14,202
Interest	13,978	8,252
Engineering and geological	12,609	11,951
Legal	12,362	13,649
Travel and automotive	10,115	9,519
Trust company fees and disbursements	8,887	15,188
Miscellaneous	7,332	3,709
Directors' fees and allowances	4,865	10,371
Telephone and telegraph	4,163	4,792
Office	3,265	4,639
Insurance	2,530	2,475
Audit	2,450	2,100
	<u>325,795</u>	<u>293,893</u>
Income before the following items of expense (income)	<u>558,209</u>	<u>573,646</u>
Dry holes and related exploration costs	284,551	312,312
Unproductive properties surrendered	77,156	25,943
Provision for depletion	48,175	62,360
Provision for depreciation	37,924	30,681
Gain on disposal of property and equipment	(87,463)	(1,048)
	<u>360,343</u>	<u>430,248</u>
NET INCOME FOR THE YEAR (Note 3)	<u>197,866</u>	<u>143,398</u>
Retained earnings at beginning of year	1,707,250	1,563,852
Retained earnings at end of year	<u>\$ 1,905,116</u>	<u>\$ 1,707,250</u>

The accompanying explanatory notes are an integral part of these financial statements.

PRAIRIE OIL ROYALTIES COMPANY, LTD.
AND SUBSIDIARY COMPANY

Explanatory Notes to Consolidated Financial Statements

June 30, 1966

1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the company's wholly owned subsidiary Prairie Gas & Oil Ltd., the net assets of which are \$12,492.

2. ACCOUNTING POLICY

Acquisition and exploration costs of properties are capitalized as incurred. Costs of producing properties are depleted on the unit of production method based upon estimated recoverable reserves as determined by the company's engineers. Dry hole costs are written off when the well is abandoned. Acquisition costs are written off as the company's properties are determined to be unproductive.

3. INCOME TAXES

Under the provisions of the Canadian Income Tax Act, the company is entitled, for tax purposes, to claim depletion, and to deduct certain petroleum and natural gas drilling and exploration costs which have been capitalized for accounting purposes. Accordingly, by applying these deductions against current income, no income taxes are exigible for the year ended June 30, 1966.

The company has approximate accumulated tax losses of \$476,000, together with \$283,000 in drilling and exploration expenditures, which may be carried forward and applied against future taxable income.

4. INVESTMENT

The investment in British Columbia Oil Lands Ltd. consists of 333,522 shares, representing approximately 35% of the outstanding common stock.

5. SUBSEQUENT EVENTS

As a result of an offer by Canadian Industrial Gas & Oil Ltd. to shareholders of the company, excluding shareholders resident in the United States of America, to exchange shares on the basis of one common share of Canadian Industrial Gas & Oil Ltd. for three shares of the company, and from certain private transactions made on a similar basis, Canadian Industrial Gas & Oil Ltd. has acquired approximately 71% of the company's capital stock.

On August 1, 1966 Canadian Industrial Gas & Oil Ltd. assumed management of the company and effected settlement of outstanding employment contracts in the approximate amount of \$116,000.

Outstanding options previously granted to key executive personnel to purchase 85,000 shares at a price of \$2.81 per share were exercised in full.

Auditors' Report to the Shareholders

PRAIRIE OIL ROYALTIES COMPANY, LTD.

Calgary, Alberta

We have examined the consolidated balance sheet of Prairie Oil Royalties Company, Ltd. and its subsidiary company as at June 30, 1966 and the related consolidated statement of income and retained earnings for the year ended on that date and have obtained all the information and explanations we have required. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, and according to the best of our information and the explanations given to us and as shown by the books of the company and its subsidiary, the accompanying consolidated balance sheet and related consolidated statement of income and retained earnings are properly drawn up so as to exhibit a true and correct view of the state of the affairs of the company and its subsidiary as at June 30, 1966 and the results of their operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

In accordance with Section 154 of the Saskatchewan Companies Act, we report that, in our opinion, all the transactions of the company that have come to our notice have been within the objects and powers of the company.

TOUCHE, ROSS BAILEY & SMART,

*Calgary, Alberta
August 22, 1966*

Chartered Accountants

